



State of New Jersey

CHRIS CHRISTIE
Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

July 15, 2011

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investments in Blackstone Real Estate Partners VII**

The New Jersey Division of Investment is proposing an investment of \$300 million in Blackstone Real Estate Partners VII. This memorandum is presented to the New Jersey State Investment Council (the "SIC") pursuant to N.J.A.C. 17:16-69.9.

Blackstone Real Estate Partners VII ("BREP VII") is a global opportunistic real estate fund sponsored by The Blackstone Group ("Blackstone") that is currently targeting approximately \$10 billion of capital commitments. BREP VII will seek to invest in distressed portfolios or assets where either the capital structure is broken, the real estate is undermanaged or the current owner is a motivated seller. Specifically, Blackstone will pursue the following themes: purchase debt in order to gain control of assets, equity investment in restructuring/recapitalization, disposition of assets by motivated seller, bankruptcy situations, and a public-to-private transaction.

The Fund offers investors unique access to global deal flow of all sizes, and will invest across sectors and geographies focusing on the United States with no more than 33.3% to be invested outside of the U.S. and Canada. Blackstone creates value from their ability to appropriately allocate capital by strategy and source deal flow that is otherwise not available to specialty operators due to size and complexity.

Investors committing \$300 million or more to the fund will receive a management fee reduction of 25 bps to 1.25%. Also, investors participating in the first close of the fund will receive a management fee waiver for 4 months, which equates to a savings of approximately \$1.25 million based on a \$300 million investment.

Blackstone has been one of the most active private equity real estate investors globally over the last 20 years and has consistently performed above their peer average in every vintage year. Since 1991, Blackstone has raised more than \$20 billion of capital for Blackstone Real Estate Partners I-VI (collectively "BREP Funds"), and most recently BREP VI (2007 vintage) was an \$11 billion fund.

The Division of Investment ("Division") Staff and its real estate consultant, The Townsend Group, undertook extensive due diligence on the proposed investment. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

As part of its due diligence process, staff determined that the fund is in the process of engaging Park Hill Real Estate Group LLP (the "placement agent") as third-party solicitor for Blackstone Real Estate Partners VII L.P. . Park Hill has not been involved in soliciting investment management business from the State of New Jersey or a State official on behalf of the fund.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee and a meeting of the Committee was held on July 12, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investment was made available to the Investment Policy Committee.

We will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern each investment. In addition, each proposed investment must comply with the State Investment Council's (the "Council") regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that this investment is authorized pursuant to Articles 69 and 71 of the Council's regulations. The Blackstone Real Estate Partners VII will be considered a non-core real estate investment, as defined under N.J.A.C. 17:16-71.1.

We look forward to discussing the proposed investment at the SIC's July 21, 2011 meeting.

Attachments

State Investment Council Investment Committee Fund Review Memo

To: State Investment Council
From: Division of Investment
Date: July 21, 2011
Subject: Real Estate Investment Recommendation

Fund Facts

Fund Name:	Blackstone Real Estate Partners VII
Fund Type:	Co-mingled
Commitment Amount:	\$300 million
Current Fund Size/Vintage:	Fund VII -- \$10 billion (+)/2011
Previous Fund Size/Vintage:	Fund VI -- \$10 billion/ 2007
Final Close:	TBA
Fund Address:	345 Park Avenue New York, NY 10154

GP Contact Info

Name:	Jonathan Gray
Telephone:	212-583-5803
Email:	Gray@blackstone.com

Summary of Terms and Investment Strategy

Investment Strategy:	Opportunistic/ Distressed Commercial Real Estate
Geographic Focus:	US/Canada/Europe
GP Co-Investment Amount:	\$300 million plus up to 10% in each investment on a side-by-side basis
Terms:	
Term:	10 years
Investment Period:	5 years from final equalization date with two additional one-year extensions with advisory board approval
Management Fee:	1.25%
Preferred Return:	8%
Catch Up:	First, 100% to the Limited Partner until it receives a return of contributions for the Investment that has been disposed of, Allocated Fees and Expenses that have not been recouped on all Investments that have been disposed of, unrecouped losses on Investments previously disposed of, unrealized losses on Investments not disposed of, and an 8% compound annual return on contributions with respect to Investments disposed of, plus Allocated Fees and Expenses Second, 80% to the General Partner and 20% to the Limited Partner until the General Partner receives its 20% carried interest with respect to Investments that have been disposed of Thereafter, 80% to the Limited Partner and 20% to the General Partner
Back Office/Service:	n/a
Fund Attorney:	Simpson Thacher & Bartlett LLP
Auditor:	Deloitte & Touche LLP

NJ AIP Program:

Recommended Allocation Current:	\$300 million
% of investment in Fund II:	3%

LP Advisory Board Membership:	Yes
Consultant Recommendation:	Yes
Placement Agent:	No
Compliance with Division Placement Agent Policy:	N/A
Compliance with SIC Political Contribution Reg:	Yes

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.